

The directors of Great China Holdings Limited (the “Company”) present the Group’s Interim Report and condensed accounts for the six months ended 30th June 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 18 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The operating results for the six months ended 30th June 2003 reflected solid improvements in the underlying strengths of the Group’s operations. Compared with the corresponding period last year, turnover increased by 37.9% to HK\$495,138,000, which was driven mainly by the strong sales growth of the trading operation. Gross profit increased by 76% to HK\$58,810,000, a remarkable improvement attributable to the trading operation and the property operation.

Due to the increase in freight charges and the Group’s adoption of new sales initiatives for the long-term prosperity of the trading operation, there was an increase in the Group’s selling expenses during the period under review. However, the Group’s cost control measures remained sound as reflected by the further reduction in administration expenses. Loss before taxation amounted to HK\$478,000, compared to the profit before taxation of HK\$18,276,000 for the corresponding period last year as a result of a substantial gain from the disposal of investment properties of HK\$41,102,000 for the corresponding period last year. After taxation and minority interests, the Group recorded a loss of HK\$2,043,000 for the six months ended 30th June 2003, compared to a profit of HK\$18,176,000 for the corresponding period last year.

Trading Operation

The trading operation remained as the Group’s core business, recording a turnover of HK\$467,170,000 which was 34.5% higher than that of the corresponding period last year – a reflection of the gradual success of the Group’s new sales initiatives. Fishmeal trading continued to be the focus of the operation, and fishmeal market prices have stabilized following the encouraging news that the fishing ban in Peru waters was fully lifted in mid April 2003. However, the outbreak of severe acute respiratory syndrome (“SARS”) has brought major interruptions to port operations in China, and the imports and exports of animal feeds were particularly affected. Furthermore, the war led by the United States against Iraq has pushed up oil prices, leading to an increase in freight charges. These incurred additional costs and resulted in a loss of HK\$3,168,000 for the trading operation, but the

amount was significantly lower than the loss amount of HK\$11,516,000 recorded in the corresponding period last year.

The Group will continue to strengthen the marketing and distribution efforts of its trading operation in China and across the world to increase its economies-of-scale benefits and its specialist edge in order to further improve its cost efficiency.

Property Investment in Hong Kong

During the period under review, the Hong Kong economy remained weak with deflation and unemployment soaring to new highs. The SARS epidemic added salt to the wound, making a severe blow to several major sectors including the retail sector. Under the circumstances, shop tenants of the Group requested for rental concessions, to which the Group responded with flexible measures including the granting of some temporary relief. While such measures have led to a decline in the Group's rental income for the period under review, they have not materially affected the rental levels and, as such, the total amounts of rental income receivable under the leases. With hindsight, these measures proved to be sensible and accommodating, as the retail sector began to show signs of recovery following the subsiding of SARS and lately the huge increase in Mainland tourist arrivals.

Property Investment in China

The properties in Jing An District in Shanghai commenced sales in December 2002, with 10 of the total 48 residential units already sold and a profit of HK\$5,802,000 booked for the period under review. Further sales envisaged by the Group for the period under review did not materialize due to the outbreak of SARS, and the epidemic also affected the occupancy rates and thus the rental income of the Group's investment properties in China that comprise mainly service apartments.

With SARS brought under control, the occupancy rates of the Group's service apartments in China have been gradually returning to normal levels. The outlook for the Group's property investment business in China remains promising, as China continues to attract huge inflow of foreign investment and rising living standards of its citizens.

Real Estate Agency Services in China

Loss of this operation narrowed by 30.1% compared with the corresponding period last year. Turnover recorded a decline mainly due to the SARS outbreak which delayed the discussions on new projects. Such discussions have now been resumed and the Group is also exploring new avenues to increase the profitability of the operation.

Strategic Outlook

The Peruvian government has imposed the fishing ban in late July of 2003 and it is widely expected that the ban will last 90 days in line with past practice. However, there are signs that the new Peruvian minister in charge of fishing matters is adopting a policy for the long-term healthy development of the business. Thus some fishmeal producers in Peru are hoarding inventories in order to benefit from any unexpected prolonging of the fishing ban, which caused the market prices of fishmeal to stay firm in the market place. However, given the increasing demand for quality fishmeal in China as a result of the citizens' growing appetite for seafood, the Group will capitalize on the trend by seeking means to further penetrate the fishmeal distribution market in China to gain a higher leverage on the selling prices of the products.

Encouraging developments have taken place in Hong Kong for the retail sector following the return of tourists after SARS abated. Starting from mid-August 2003, residents from a number of Mainland cities can visit Hong Kong individually instead of joining tours, and signs are that this policy will be introduced in more Mainland cities in the coming future. Local retail sales are beginning to pick up which should provide a good support to retail property prices and rentals. The residential sector in China also saw marked recovery in the aftermath of SARS, and should continue to grow in light of China's booming economy. The Group will continue to adopt an appropriate strategy to benefit from these developments.

Liquidity and Financial Resources

The long term liabilities of the Group amounted to approximately 52% (31.12.2002: 58%) of its shareholders' funds as at 30th June 2003. The current ratio of the Group decreased from 2 of last year to 1.30.

The Group's borrowings were mainly denominated in Hong Kong Dollars and the United States Dollars. As at 30th June 2003, cash and bank balances of HK\$62,378,000 (31.12.2002: HK\$62,296,000) and certain land and buildings with an aggregate book value of HK\$444,521,000 (31.12.2002: HK\$442,089,000) and properties held for resale of HK\$91,008,000 (31.12.2002: HK\$92,281,000) were pledged to banks to secure banking facilities amounting to HK\$384,799,000 (31.12.2002: HK\$388,226,000). The aggregate amount of banking facilities available but not yet utilized by the Group was HK\$45,747,000 (31.12.2002: HK\$107,262,000) as at 30th June 2003.

Since the Group usually conducts its business transactions in Hong Kong Dollars and the United States Dollars, there seldom arises any need for the Group to make use of any financial instruments for hedging purposes.

Employees and Remuneration Policies

As at 30th June 2003, the total number of employees of the Group was about 136 (6 months ended 30.6.2002: 132) with staff cost amounting to approximately HK\$5,043,000 (6 months ended 30.6.2002: HK\$5,860,000). Remuneration policies are reviewed annually by the management. Remuneration packages, including share options, are structured to take into account the comparable level of the market.

Pursuant to the Employees Share Option Scheme approved by the shareholders on 29th March 1993, the Group had granted 12,180,000 share options to the directors and employees at an exercise price of HK\$0.94 per share which can be exercised between 2nd September 1993 to 1st September 2003.

As of the date of this report, all share options were lapsed.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30th June 2003, the interests and short positions of directors in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary Shares of the Company

Directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Rustom Ho Ming Yu	-	-	138,347,288*	-	138,347,288
Mr. John Ho Ming Tak	-	600,000	138,347,288*	-	138,947,288

Note: Interests in the shares are long positions.

* *By virtue of the SFO, both Mr. Rustom Ho Ming Yu and Mr. John Ho Ming Tak are deemed to have interest in the 138,347,288 shares held by Fulcrest Limited. Interests in the same share have been disclosed by Fulcrest Limited and others as substantial shareholders.*